

## TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS – COMPLIANCE	2
Daily Mail Record of Cash Receipts	2
Open Items on FIA-61	3
FIA-61	3
Medical Transportation	3-4
CIS Security Agreements	4
Security Officers Log Report	4-5
Reconciliation of Cash With County Treasurer	5
Modified Accrual Basis Balance Sheet	5
Returned Warrants –FIA-138	6
Returned Warrants	6
Cash Reserve File	6-7
Controlled Document Log	7
Accounts Receivable Reconciliation	7
Reconciliation of Automated Recoupment of Accounts Receivable	7-8
RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS	
Knowledge of IRS Security Procedures	8

Procurement Card Usage	8-9
Control of Bus Tokens and Tickets	9
ALBION DISTRICT OFFICE – FINDINGS AND RECOMMENDATIONS	
CIS/ASSIST Security Agreements	10
Daily Mail Record of Cash Receipts	10

## **INTRODUCTION**

The Office of Internal Audit performed an audit of Calhoun County FIA for the period October 1, 1998 through July 27, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Calhoun County FIA had 177 full time equated positions (FTE's) at the time of our review. Calhoun County FIA provided assistance to an average 12,274 recipients per month during FY 1998, with total assistance payments of \$17,346,893 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Calhoun County, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Procurement Card usage	Telephone Monitoring
ENP/SER Payments	Payroll Review
Modified Accrual Basis Balance Sheet	Medical Transportation

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Calhoun County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Calhoun County FIA has reviewed all findings and recommendations included in this report and are in general agreement. They indicated in a memorandum dated August 24, 1999 that they are in general agreement with the report, and that corrective action is being taken for all items in the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Calhoun County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Daily Mail Record of Cash Receipts**

1. The Calhoun County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that the Calhoun County FIA record all negotiables for deposit on the FIA-4729.

#### Open Items on FIA-61

2. Calhoun County FIA did not always record disposition information on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 405. We found two open items, returned food stamp cards on the FIA-61, where the items were not on hand and no disposition was recorded on the FIA-61. Recording the disposition on the FIA-61 provides documentation that returned items were disposed of properly.

WE RECOMMEND that Calhoun County FIA record the disposition of all Returned Food Stamp cards on the FIA-61.

#### FIA-61 Log

3. The Calhoun County did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. Instead the county reconciled the open items to the log every 2 to 3 weeks. Our review showed open items on the log that was not on hand. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61.

WE RECOMMEND that the Calhoun County perform a weekly reconciliation of checks/warrants on hand to the FIA-61.

#### Medical Transportation

4. Calhoun County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for 8 out of 22 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Calhoun County FIA ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

#### CIS Security Agreements

5. Calhoun County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 80 employees who access the Client Information System (CIS), as required by L-Letter 97-063. For seven of the 66 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011).

WE RECOMMEND that Calhoun County FIA have all employees who have access to the CIS system complete a CIS Security Agreement and that the status codes on the Security Agreement are consistent with the status code on the PF-011 report.

#### Security Officers Log Report (PD-180)

6. Calhoun County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. In addition, the same person who is responsible for reconciling the PD-180 log also

maintains the CIS Security Agreements. For internal control purposes the reconciler must not be the CIS Security Coordinator and someone without access to CIS.

WE RECOMMEND that Calhoun County FIA reconcile the PD-180 report to revised Security Agreements and that an independent person performs the reconciliation.

#### Reconciliation of Cash With County Treasurer

7. Calhoun County FIA did not reconcile its Asset Account 001 (Cash With County Treasurer) to the County Treasurer's cash account each month, as required by Accounting Manual Item 402. Prompt reconciliation of this account balance would detect any discrepancies, and facilitate needed corrections.

WE RECOMMEND that Calhoun County FIA reconcile its Cash With County Treasurer Account to the County Treasurer's records each month.

#### Modified Accrual Basis Balance Sheet

8. Calhoun County FIA did not prepare a Modified Accrual Basis Balance Sheet or Change in County Equity Statement each month, as required by Accounting Manual Item 402.3. Preparation of the Modified Accrual Basis Balance Sheet and Change in County Equity Statement is necessary to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Calhoun County FIA prepare the Modified Accrual Basis Balance Sheet and Change in County Equity Statement each month.

### **Returned Warrants – FIA-138**

9. Calhoun County FIA had 2 returned warrants on hand that dated back to March and April 1999, and the county did not have a FIA-138 (Action Taken on State Treasurer's Warrants by Local Offices) on file as required by Accounting Manual Item 462. Maintaining a pending and permanent file of FIA-138's will provide an audit trail to the FIA-61.

WE RECOMMEND Calhoun County FIA maintain a pending and permanent file of FIA-138's for all returned warrants.

### Returned Warrants

10. Calhoun County FIA was maintaining 2 returned state warrants on hand, one from March and one from April 1999 instead of 10 days, as required by Accounting Manual Item 431. Voiding the returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that Calhoun County FIA dispose of returned state warrants within 10 business days.

### Cash Reserve File

11. Calhoun County FIA did not maintain a Cash Reserve File as required by Accounting Manual Item 402.6. Maintaining a file with documentation for its establishment and transactions affecting Cash Reserve will ensure that the cash reserve is appropriately documented and accounted for.

WE RECOMMEND that Calhoun County FIA establish and maintain a Cash Reserve file as required by Accounting Manual Item 402.6.



#### Controlled Document Log

12. Calhoun County FIA did not properly control blank documents. We noted that the local office was not using the Controlled Document Log (FIA-4070) for (FIA-3543), Purchase Order/Invoices as required by Accounting Manual Item 403. Use of the Controlled Document Log help to ensure that loss, theft, or misuse of controlled documents, which could be used to generate unauthorized payments, would be detected on a timely basis.

WE RECOMMEND that Calhoun County FIA use the Controlled Document Log for all controlled documents.

#### Accounts Receivable Reconciliation

13. Calhoun County FIA did not reconcile all accounts receivable balance with the general ledger totals for account 054.2, Potential Accounts Receivable Due from Vendor as required by Accounting Manual item 481.5. Reconciling the Account Balances to the General Ledger balances will ensure that all transactions made during the month were accurately posted.

WE RECOMMEND that Calhoun County FIA reconcile the accounts receivable balances with the general ledger totals each month.

#### Reconciliation of the Automated Recoupment of Accounts Receivable

14. Calhoun County FIA did not reconcile the GH-280, GH-370 and the GH-380 reports on a monthly basis as required by Accounting Manual Item 481. Reconciliation of these reports ensures that all moneys collected are accounted for and the clients account balances are accurate.

WE RECOMMEND that Calhoun County FIA reconcile the Automated Recoupment Reports.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Calhoun County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### **Knowledge of IRS Security Procedures**

15. Mail room staff, Family Independence Specialists (FIS), Eligibility Specialists (ES), and Family Independence Managers (FIM) at Calhoun County FIA were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Calhoun County FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

#### **Procurement Card Usage**

16. Calhoun County FIA did not have a supporting invoice or other documentation for one out of 5 transactions we tested. Attaching original documentation to the Biweekly Transaction Log will assist the supervisor in reconciling the transactions and ensuring that purchases are appropriate.

WE RECOMMEND that Calhoun County FIA attach original documentation to the BI-Weekly Transaction Log for reconciliation purposes.

**Control of Bus Tokens and Tickets**

17. Calhoun County FIA did not control the inventory of the family reunification bus tokens, student bus passes and 12 ride passes on an FIA-4070 (Controlled Document Log). Bus tickets and tokens were kept in the safe, but no inventory records were maintained. Bus tickets are negotiable and should be controlled to prevent misuse.

WE RECOMMEND that Calhoun County FIA control the inventory of bus tickets.

## **Albion District Office**

### **CIS/ASSIST Security Agreements**

18. The Albion District Office did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 21 employees who access the Client Information System (CIS), as required by L-Letter 97-063. There were 3 ASSIST Security Agreements and 2 Enrollment Profiles (FIA-3720, FIA-3721) that were not completed for employees who have access to ASSIST as required by L-Letter 97-156.

WE RECOMMEND that the Albion District ensure that accurate, up-to-date Security Agreements are on file for all staff who access CIS and ASSIST.

### **Daily Mail Record of Cash Receipts**

19. The Albion District did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the District used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that an FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND the Albion District record all negotiables for deposit on the FIA-4729.